KINGDOM OF LESOTHO

ANNUAL BORROWING PLAN FY2025/26

MINISTRY OF FINANCE AND DEVELOPMENT PLANNING

APRIL 2025

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LESOTHO ANNUAL BORROWING PLAN FOR FINANCIAL YEAR 2025/26

INTRODUCTION

The FY2025/26 Annual Borrowing Plan (ABP) is prepared and published in fulfilment of the international best practice in debt management but will soon be legal requirement once the Public Debt Management Bill has been enacted into law.

The Plan is prepared in line with the updated 2022-2025 Medium Term Debt Strategy (MTDS) (see below for details).

The ABP outlines how the projected annual financing needs of the Government will be met during the fiscal year. It promotes transparency and enhances the predictability of Government borrowing. The Plan is complemented by an annual Bond Issuance Calendar which spells out the borrowing operations of the Government consistent with the cash flow projections and bond maturity profile for the fiscal year.

ABP fulfils the following debt management objectives:

i Ensure the financing needs of the Government are met on a timely basis;
ii borrow at a low cost over the short, medium to long term and consistent with prudent degree of risk;
iii promote the development of the domestic debt market.

The estimated FY2025/26 budget deficit of LSL1,156.0 million is expected to be financed from domestic sources (See Table 1). External Sources will finance loan projects with estimated disbursements of LSL3,317.6 million.

This ABP is designed to reflect the macroeconomic outlook, the FY2025/26 budget assumptions as well as the 2022-2025 updated MTDS. Thus, the ABP will be revised when the macroeconomic conditions change.

SUMMARY OF MACROECONOMIC PROJECTIONS

The macroeconomic environment is expected to remain stable over the medium-term as Government implements fiscal growth programme. The FY2025/26 budget projects a fiscal deficit of 2.6% of GDP and real GDP growth of 2.5%. The FY2025/26 ABP is anchored on the macroeconomic projections detailed below:

TABLE 1: MACROECONOMIC ASSUMPTIONS

STATEMENT OF GOVERNMENT OPERATIONS (Maloti Millions unless otherwise specified)	23/24	24/25	25/26
TRANSACTIONS AFFECTING NET WORTH	6,408.1	9,092.4	9,418.9
Revenue	23,327.2	27,247.9	29,815.4
Revenue without SACU	13,178.7	15,698.7	20,635.5
Taxes	9,244.7	10,028.0	11,203.3
Grants	1,024.1	1,701.1	3,459.4
SACU	10,148.5	11,549.2	9,179.9
Expenditure	20,535.0	22,853.4	30,971.4
Expense	16,919.1	18,155.6	20,396.5
NET LENDING/BORROWING	2,792.2	4,394.6	-1,156.0

SUMMARY OF THE UPDATED 2022-2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

The MTDS represents a robust framework for prudent debt management, as it provides a systematic approach to decision-making on the appropriate composition of external and domestic borrowing to finance the Government's fiscal deficit. The strategy focuses on the appropriate financing mix from both domestic and external sources to mitigate the costs and risks embedded in the public debt portfolio.

The MTDS has been updated recently for FY2025/26 to move away from strategy that focuses largely on development of local market to focus on contracting mostly concessional loans for capital expenditure. Domestic funding will be targeted to constitute a maximum of 15% of the total debt portfolio, to balance local debt market development objectives with higher borrowing costs of domestic debt Lesotho is currently paying more interest on domestic debt, which represents only 15.8% of total debt.

The chosen strategy best responds to the Government's need to mitigate the costs embedded in the current public debt portfolio and seeks to lengthen the maturity profile of the domestic debt to lower refinancing risk. The heightened exchange rate risk from the move has been looked at and hedging measures are in development.

RISKS TO THE ANNUAL BORROWING PLAN

i. Auction Underperformance: There is a risk of undersubscription in Government bond auctions, although this has been less common in recent years, it may still lead to exacerbation of already prevalent problem of domestic arrears.

ii. Refinancing Risk: Despite fixed coupon rates, the variability in yield rates presents challenges when refinancing or rolling over existing domestic debt.

iii. Exchange Rate Risk: Fluctuations in exchange rates may lead to unpredictability in the budget concerning debt service expenditures. Periods of high depreciation lead to unplanned budget adjustments.

iv. Contingent liabilities associated with SOE: While borrowing of the SOE is largely controlled by the Minister of Finance, the extent of their indebtedness remains undetermined or underreported. Utility companies pose the biggest risk.

v. Macroeconomic environment deterioration: The change of economic environment, especially the retraction of grants by the US Government is poised to render the FY2025/26 budget impractical if the executive orders are implemented. Other risks include a deterioration of the performance of the South African economy and lower than projected SACU revenues.

REVIEW OF 2024/25 ANNUAL BORROWING PLAN

The Government of Lesotho total debt stock as at end FY2024/25 amounted to LSL 22,811.0 million (54.8 percent of GDP), a year-on-year decline of LSL 490.3 million from FY2023/24. New borrowing and disbursements for the year amounted to LSL2,265.6 million, total repayments were LSL 1,901.9 million while there were parity gains of LSL 625.2 million. Guarantees extended to SOEs add a further LSL 68.3 million to bring total Public and Publicly Guaranteed Debt to LSL22,879.3 million (Annex 1). Data challenges remain, there are other guarantees housed in other government ministries that are not captured.

Borrowing for the year amounted to LSL2,265.6 million made up of domestic borrowing LSL 513.6 million and external loan disbursements of LSL1,752.0 million. This was against the budgeted financing of LSL 4,540.4 million made up of fiscal surplus of LSL 1,044.3 million and donor loans of LSL 3,496.1 million. Domestic and external debt accounted for 15.8 percent and 84.2 percent of the total debt stock, respectively. Domestic debt is mostly contracted to finance fiscal deficits and to develop the domestic bond market, while external debt is contracted to finance capital expenditure. For FY2024/25 domestic debt was contracted for market development purposes as per MTDS strategy at the time.

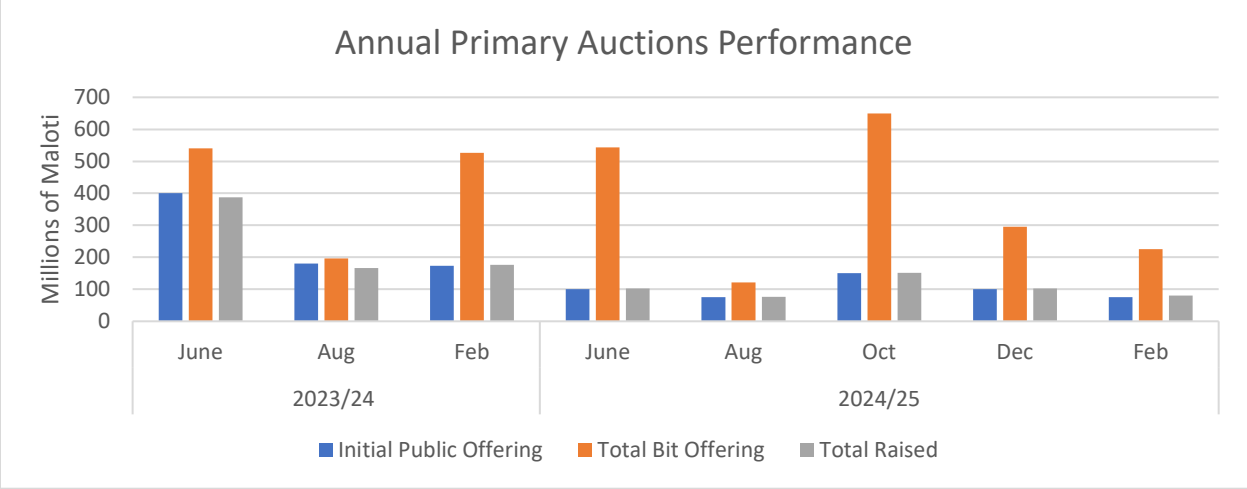
TABLE 2: DEBT COMPOSITION IN MILLIONS OF MALOTI

YEAR	2022/23	2023/24	2024/25
TOTAL DEBT	**22775.3**	**23301.2**	**22811**
EXTERNAL DEBT STOCK	18288.8	19293	19216.3
DOMESTIC DEBT STOCK	4486.4	4008.2	3594.6
TOTAL DEBT SHARE			
EXTERNAL DEBT SHARE TO TOTAL	80.3%	82.8%	84.2%
DOMESTIC DEBT	19.7%	17.2%	15.8%
TOTAL DEBT AS A SHARE OF GDP		58.9%	54.8%
EXTERNAL DEBT TO GDP	48.3%	48.7%	46.1%
DOMESTIC DEBT TO GDP	11.9%	10.1%	8.6%
TOTAL DEBT SERVICE	**1,833.2**	**1,917.2**	**2,526.2**
EXTERNAL DEBT SERVICE	1,159.5	1,270.7	1,240.6
PRINCIPAL	914.1	1008.3	988.4
INTEREST	245.4	262.5	252.1
DOMESTIC DEBT SERVICE	673.7	646.4	1285.6
PRINCIPAL	344.2	252.4	913.5
INTEREST	329.6	394	378.6
INTEREST SHARES/ COST OF BORROWING			
EXTERNAL INTEREST SHARE TO TOTAL INTEREST	42.7%	40.0%	40.0%
DOMESTIC INTEREST SHARE TO TOTAL INTEREST	57.3%	60.0%	60.0%

Domestic Borrowing Performance

Domestic debt stock at the end of March 2025 amounted to LSL 3,594.6 million, a decline of LSL 413.6 million from the previous year. The domestic treasury bonds auctions were oversubscribed and raised a total of LSL 513.6 million against a target of LSL 500 million.

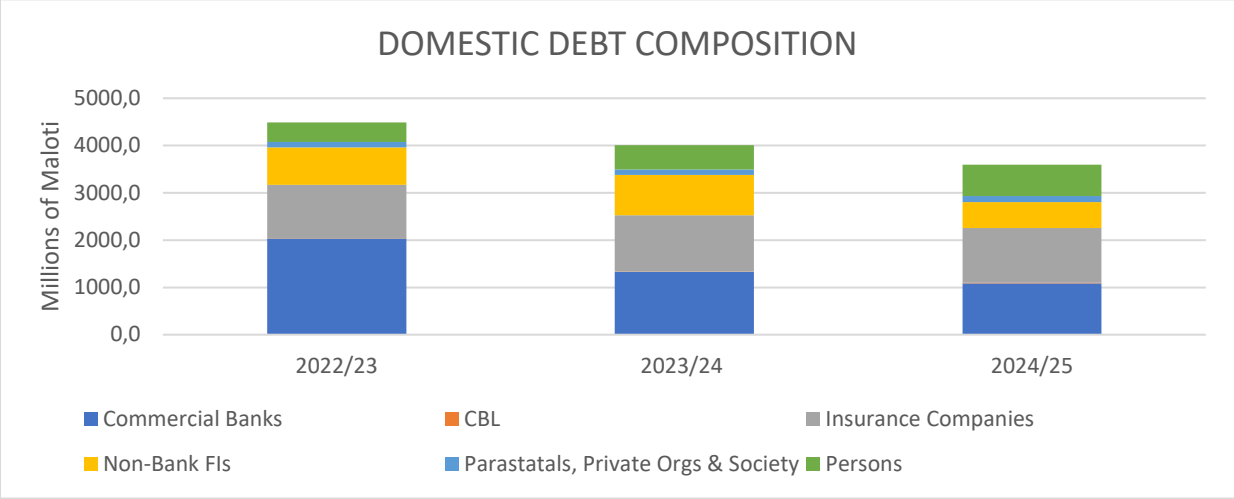
FIGURE 1: AUCTIONS PERFORMANCE



Total domestic debt service for the year amounted to LSL 1,285.6 million. This comprised LSL 913.5 million principal redemptions, LSL 335.4 million coupon repayments and monetary interest payments of LSL 43.2 million. There were two 5-year bonds that matured that were valued at LSL 300 and LSL 361 million while a 10-year bond was amortized by second instalment of LSL 252.4

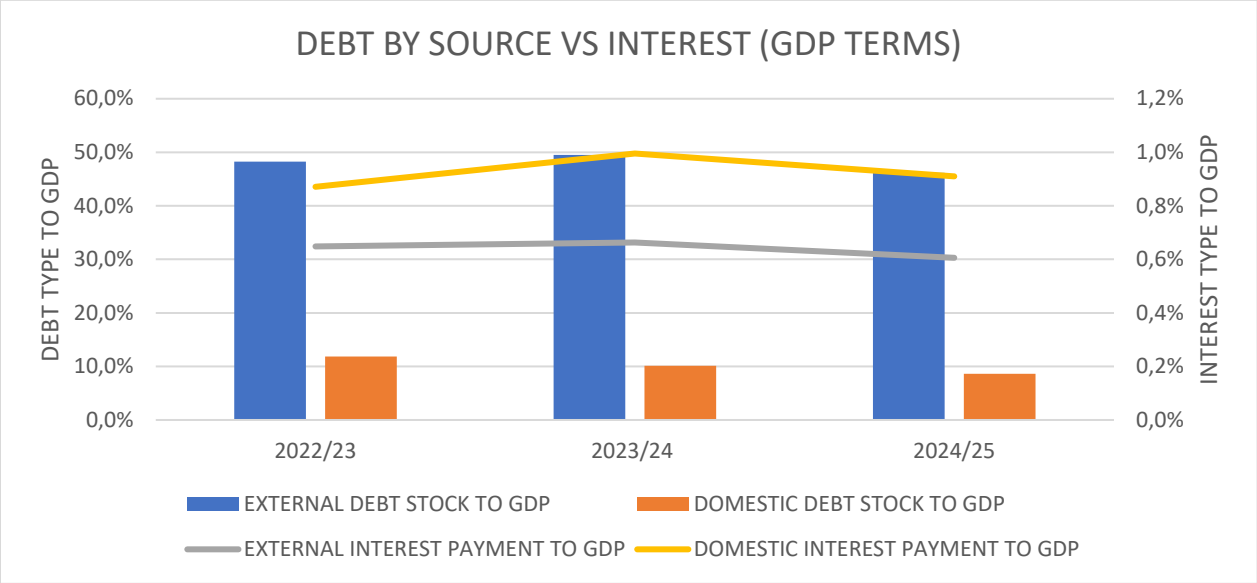
million and to be retired the following year. Domestic debt decline is in line with Medium Term Debt Strategy to reduce the cost of debt by targeting domestic debt share below 15 percent of total debt.

FIGURE 2: DOMESTIC DEBT BY HOLDER



At the end of FY2024/25 domestic debt was 15.8 percent of the debt stock but 60 percent of the cost while in terms of GDP, domestic debt is 8.6 percent compared to external debt of 46.2 percent while their respective interest were 0.9 and 0.6 percent. Domestic debt average term to maturity is 4.4 years, and it is expected to slightly increase due to medium to long-term nature of the instruments to be issued this year.

FIGURE 3: DOMESTIC AND EXTERNAL DEBT COST OF COMPARISON



External Borrowing Performance

External debt stock at the end of March 2024 amounted to LSL 19,216.3 million, a slight year-on-year decline of LSL 76.7 million. Disbursements were LSL 1,752.0 million compared to a target of LSL 3,496.1 million in the budget. This lackluster 50 percent performance reflects continued implementation challenges surrounding projects due to lack of capacity in the local project implementation units. The flat stock of external debt was further influenced by exchange rate gains of LSL 625.2 million while debt service amounted to LSL 1,240.6 million (LSL 988.4 principal and LSL 339.5 million interest). The external portfolio remains mostly concessional at a share of 68 percent, besides the Country graduating from IDA to middle income country.

TABLE 3: EXTERNAL DEBT (SUMMARY), MILLION MALOTI

EXTERNAL	2022/23	2023/24	2024/25
Disbursed Outstanding Debt	18,288.8	19,293.0	19,216.3
Disbursement	1,584.2	1,446.8	1,752.0
Principal Paid	914.1	1,008.3	988.4
Interest Paid	245.4	262.5	252.1
Service Fees Paid	65.9	79.8	79.2
Commitment Fees Paid	6.2	4.7	8.2
Total Debt Service	1,159.5	1,270.7	1,240.6

Debt Instruments and Borrowing Terms

External loan contraction in 2024 will be restricted to concessional sources, with the majority being financed by Multilateral Development Banks such as the World Bank and African Development Bank and EXIM Bank of China. This is in line with Government's current policy to limit external debt contractions to concessional borrowing.

TABLE 4: BORROWING TERMS BY CREDITOR

Terms	Bilateral	Multilaterals				
TERMS	China Exim bank	IDA	ADF	EIB	IFAD	OFID
Maturity Period	20 Years	25 Years	25 Years	25 Years	20 Years	20 Years
Grace Period	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
Interest rate	2%	1.25%	1.25%	1.25%	2%	2%
Service Charge	-	0.75%	0.75%	0.75%	-	-
Commitment fee	0.5%	0.5%	0.5%	0.5%	0.15%	-

TOTAL BORROWING NEEDS FOR THE 2025/26 FINANCIAL YEAR

For FY 2025/26, the Government budgeted to have a financing gap of LSL 7,528.2 million to be financed through grants and debt. The financing from grants is projected at LSL3,054.6 million, and project loans at LSL 3,317.6 million both from external sources ultimately leading to fiscal gap of around LSL 1,156.6 million. Domestic issuance of Treasury bonds is planned to amount to LSL 600 million, leaving a remaining gap of 556.6 million maloti to be financed. The decision to fund the remaining financing gap of LSL 556.6 million through further issuances or reallocation shall be taken dependent on the in-year fiscal performance. Historically it has been proven that there is generally poor implementation of government financed projects usually leading to positions of surpluses from planned deficits. Notwithstanding a planned contraction of LSL 600 million, the principal repayment is expected to lead to an overall reduction of domestic debt by LSL 302.4 million. The borrowing will be conducted in line with the Medium-Term Debt Strategy which entails a gradual decrease in domestic financing, and contraction of mostly concessional loans from external sources to manage cost. By the end of the FY2025/26 total (documented) debt is projected at 54.6 % of GDP, below the 60% threshold for sovereign debt limited, according to the Public Debt Management Bill.

DOMESTIC DEBT

The Government budgeted domestic debt service for FY2025/26 is LSL 1,267.2 million, comprised of LSL 902.4 million principal and interest of LSL 364.8 million. The plan entails retirement of two domestic bonds, a 5-year LSL 650 million bond and a settlement of the remaining LSL 252.4 million on a 5-year amortizing bond. The auction calendar plans to issue new 10-year and 15-year bonds as well as reopen an existing bond twice. The auctions will continue to be conducted by the Central Bank of Lesotho in its capacity as Government's fiscal agent in 5 auctions in April, June, October, December and March. The Government securities will be issued through competitive and non-competitive bidding at single price allotment.

TABLE 5: NEW DOMESTIC LOANS TO BE CONTRACTED IN FY2025/26 (MALOTI)

Auction Date	Bond Name	Auction Amount	Issuance	Maturity Date	Coupon Payment
09-Apr-25	LS000A3L3BR8	100,000,000	Re-Opening	01-Oct-31	Apr/Oct
18-Jun-25	New Bond (5 Years)	150,000,000	New	12-Jun-30	Jun/Dec
08-Oct-25	LS000A3L3BR8	150,000,000	Re-Opening	01-Oct-31	Apr/Oct
17-Dec-25	New Bond (5 Years)	100,000,000	Re-Opening	12-Jun-30	Jun/Dec
18-Mar-26	New Bond (15 Years)	100,000,000	New	27-Feb-41	Mar/Sep
Total		**600,000,000**			

In FY2025/26 Domestic Debt Borrowing Instruments constitute only long-term (above 5 years) domestic debt instruments to reduce refinancing risk. The policy remains in place to cease issuance of T-bills for fiscal purposes till cash management is fully functional, till then the only bills auctioned relate to monetary policy function.

The FY2025/26 ABP will be complemented by the publication of annual issuance calendars
The issuance calendar will be published on the Central Bank of Lesotho website and will provide details on auction size, tenor of instruments to be issued, amounts on offer per instrument, issue number and indicative dates for the auctions.
Broad Terms of Borrowing
Yield rates on Government securities will be market driven. The government will, however, ensure that movements in the yield rates are in line with Government's objective of borrowing at least cost and ensuring prudent degree of risk.

EXTERNAL DEBT

The projected external financing for FY2025/26 is LSL 3,317.6 million, broken down as follows:

TABLE 6: PROJECTED DISBURSEMENTS BY MINISTRY

MINISTRY	DONOR LOANS	SHARES
Agriculture, Food Security and Nutrition	503,535,263.00	15.2%
Health	110,271,663.00	3.3%
Education and Training	98,805,005.00	3.0%
Finance and Development Planning	178,607,380.00	5.4%
Trade, Industry and Business Development	176,457,636.00	5.3%
Gender, Youth and Social Development	80,114,300.00	2.4%
Information, Communications, Technology & Innovation	62,188,865.00	1.9%
Public Works and Transport	205,333,666.00	6.2%
Environment and Forestry	66,989,465.00	2.0%
Natural Resources	950,377,446.00	28.6%
Energy	884,940,194.00	26.7%
TOTAL	**3,317,620,884.00**	

TABLE 7: LOANS CONTRACTED 2024/25

Project Description	Creditor Name	Loan Amount
Lesotho Education Project	IDA	XDR 15,200,000.00
Integrated Transport & Infrastructure Connectivity Project	IDA	USD 57,300,000.00
Integrated Transport & Infrastructure Connectivity Project	IDA	USD 22,700,000.00
Wool &Mohair Value Chain Competitiveness Project	OPEC	USD 20,000,000.00

TABLE 8: NEW PROJECTS

NEW ROJECTS	FY 2024 (In millions of USD)	FY2025 (In millions of USD)
IDA		
Lesotho Development Policy Operation (Programmatic)		20
Lesotho Education Project	20	
Integrated Transport & Infrastructure Connectivity Project	80	
Additional Financing Lesotho Lowlands Water Development Project	12.3	17.7
TOTAL	**112.3**	**37.7**
IFAD		
Wool & Mohair Value Chain Competitiveness Project (WAMCOP)	20	-
Additional Financing WAMCOP	11.8	-
TOTAL	**31.8**	**-**
OPEC		
Wool &Mohair Value Chain Competitiveness Project	**20**	-
EXIM BANK OF CHINA		
50 Mega Watts Ramarothole Solar Power Generation Project Phase II	**59.00**	-
ADF		
Additional Financing to Urban Distribution, Rehabilitation and Transmission Project	**-**	8.00
Lesotho Standards and Quality Infrastructure Project	**-**	14.5
Nationwide Fibre Distribution Network	**-**	4.5
TOTAL	**-**	**27**
GRAND TOTAL	**223.1**	**64.7**

Annex 1: Public and Publicly Guaranteed Debt

	2024/25
A. Total Public & Publicly Guaranteed Debt incl. monetary T-bills	**23151.8**
I. External Debt	19216.3
II. Domestic Debt	3867.2
o/w monetary T-Bills	272.6
III. Contingent Liabilities	68.3

Annex 2: Guaranteed Debt

	3rd Quarter 2024/25
Entity Name	
Total Guaranteed Debt	**68.3**
I. SOEs	**30.5**
Lesotho Housing	20.3
Lesotho Water and Sewage Service Authority	9.2
Petroleum Fund Headquarters	
II. Statutory loans Balance	**0.1**
III. Private Enterprises	**37.7**
Maseru E Textiles	0.1
Tractor Finance Partial Guarantee	37.7

Annex 3: Total Debt by Creditor and Creditor Type

	2020/21	2021/22	2022/23	2023/24	2024/25
TOTAL DEBT	**17,173.2**	**18,747.4**	**22,748.2**	**23,597.1**	**22,810.9**
EXTERNAL DEBT	**14,573.4**	**15,029.3**	**18,261.8**	**19,588.9**	**19216.3**
Multilateral Creditors	**12,004.38**	**11,747.75**	**14,183.83**	**15,061.0**	**15,260.23**
International Monetary Fund	1,058.23	893.3	892.57	829.2	676.25
World Bank	5,807.99	6,061.45	7,860.42	8,648.6	8,605.77
African Development Fund	2,516.73	2,331.61	2,710.44	2,790.2	2,606.83
Other Multilaterals	2,621.4	2,461.4	2,720.4	2,793.0	3,371.38
o/w European Investment Bank	1,349.28	1,261.62	1,186.96	1,104.2	1,075.06
o/w Arab Bank For Econ Dev in Africa	565.15	531.61	658.89	715.4	723.09
o/w International Fund for Agr Dev	490.1	461.16	559.68	591.2	582.21
Bilateral	**997.7**	**940.43**	**999.3**	**974.0**	**809.80**
o/w China	159.31	159.81	181.89	186.7	141.18
o/w Kuwait	325.3	317.14	329.92	321.7	281.3
Commercial Creditors	**0**	**237.94**	**155.34**	**59.9**	**0**
EXPORT CREDITS	**1,571.28**	**2,103.20**	**2,923.34**	**3,494.0**	**3,146.30**
o/w EXIM Bank China	1,529.24	2,070.13	2,891.53	3,463.7	3,125.62
DOMESTIC DEBT	**2,599.8**	**3,718.1**	**4,486.4**	**4,008.2**	**3,594.6**
Commercial Banks	1,117.30	1,805.3	2,029.02	1,328.85	1,087.7
CBL	6.90	2.5	2.56	5.54	8.1
Insurance Companies	655.0	945.3	1,134.96	1,189.3	1,161.7
Non-Bank FIs	513.40	539.8	794.13	852.55	543.6
Parastatals, Private Orgs & Society	79.50	94.4	114.10	116.80	132.8
Persons	227.60	330.9	411.65	515.18	660.7